Asset Sales Program

Frequently Asked Questions

Updated: May 27, 1999

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19. **What is the collateral for the different types of loans that will be for sale? All collateralized by real estate?**

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ABOUT Launching the Sales Program

1. What is the Asset Sales Program?

The Asset Sales Program is an initiative designed to sell the SBA-owned loan portfolio, including the SBA-purchased guarantees (both SBA-serviced and Lender-serviced) and the SBA-direct loans. Sales will be conducted in an open and competitive manner, and in such a way as to achieve the best value for the government. The FY 1998, 1999, and 2000 federal budgets outlined the mandate to sell these loans, in support of providing more resources to the key issues of fulfilling the SBA's mission. The total portfolio of SBA-owned loans consists of approximately $1.7 billion in Section 7(a) and 504 business loans and $6.9 billion in home and business disaster assistance loans.

2. What prompts the need to launch the Asset Sales Program at this time?

SBA Administrator Aida Alvarez has promoted a vision for SBA to become a 21st Century Leading-Edge Financial Institution. There are several components to achieving that vision, including the implementation of a new, comprehensive lender monitoring program and focusing more resources on the production of new loan business. The Asset Sales Program will reduce the intense resource demands of loan servicing, allowing allocation of staff to those mission-critical areas where the biggest impact can be made. Furthermore, the sales program is a prudent portfolio tool to assist in managing the overall credit exposure. More and more federal credit agencies are finding that asset sales programs are an effective mechanism for engaging the expertise of the private sector in loan packaging, pricing, and disposition.

3. What is the potential volume of assets to be sold?

The total portfolio of SBA-owned loans and assets consists of approximately $1.7 billion in Section 7(a) and Section 504 business loans and approximately $6.9 billion in home and business disaster assistance loans. SBA is committed to moving forward with the Asset Sales Program

in a way that serves the public policy issues which are central to SBA's core mission. SBA and its sales advisors will evaluate different alternatives to ensure the program achieves best value for the government; and that means balancing the financial interests (sales proceeds) with the public policy objectives.

4. What is the preliminary date for the first sale and what size of transaction will it be?

Not yet determined. SBA has engaged Whitestone Capital Group, Inc. as the Program Financial Advisor for the overall sales program. Also, SBA has engaged the sales contractors for the first sale:

- **KPMG, LLP is the Transaction Financial Advisor;**
- **METEC Asset Management, LLP is the Due Diligence Contractor; and**
- **Leftwich & Douglas/Hughes, Hubbard & Reed is the Outside Legal Advisor.**

SBA and its team have begun the portfolio selection process and will advise investors of the transaction size and the sale date at the earliest possible date. When the loans have been targeted, an update will be provided on the website. It has been the SBA's plan to sell 3,000 – 4,000 loans with an aggregate UPB of $300 to $400 million in the first sale.

5. Why is the SBA considering non-performing loans for the first sale? Wouldn't it be easier to gather investor interest long-term if the first sale related to performing loans?

The SBA Asset Sales Program will be launched with a mix of loans designed to generate long-term investor interest. The first sale will not be a "non-performing loan sale" but it will include such loans.

6. **Will SBA's marketing of the asset portfolios be directed to the large, institutional investors, or will the local and regional investors be targeted?**

SBA is very proud of its efforts to promote small businesses. The SBA is developing a sales program that achieves both financial and public policy objectives, and is inclusive of small businesses. Certainly on whole loan sales, SBA envisions a "wide and deep" marketing campaign which will garner interest from investors of all sizes. The sales contractors will be developing initiatives to ensure the small investors can participate in the bidding process.

In addition, the SBA's contracting for the sales contractors maximized opportunities for small businesses. The due diligence solicitation was an 8(a) set aside; the outside legal advisor solicitation was a small business set aside; the Transaction Financial Advisor team has several small business components; and the Program Financial Advisor team brings minority-owned and small businesses into the program.

SBA will measure its success in expanding the number of contractors and bidders involved in the Asset Sales Program on the overall program participation, not just the first sale.

7. **Do the SBA Field Offices have a role in the Asset Sales Program?**

The SBA Field Offices have a critical role in the Asset Sales Program. The field office staff is the link to the assets. SBA's Asset Sales Team works closely with the Office of Field Operations and the District Offices, and a portfolio management contact has been established at each office that may have loans in the first sale. Discussions are also underway to create a team of field office personnel to advise the sales team on implementation issues.

8. **Does SBA expect to consolidate files and have an investor due diligence facility in Washington, D.C.?**

Yes. A central collection and viewing location has proven successful at other government agencies. SBA and its sales contractors will continue to evaluate alternatives that allow for the most effective investor due

diligence. The investor due diligence facility for the first sale will be in the SBA Headquarters in Washington, D.C. However, all of the data will be available on electronic media and it will not be necessary for bidders to travel to the facility to complete their due diligence.

9. **What kind of sales volume does the SBA expect to rollout over the next 12 to 24 months?**

   SBA expects to conduct 2-4 sales per year to achieve the goals in the FY 2000 federal budget. Much is dependent on completing the first sale and evaluating the interest from investors.

10. **How is the SBA defining non-performing? Performing?**

    It is SBA's intent to define performing and non-performing in standard market terms. At this time, the portfolio is being evaluated and information is being reviewed to achieve a common understanding of performance.

11. **We heard that SBA had drafted an Asset Sales Program Strategic Plan.**

    A document titled "Highlights from the Draft Strategic Plan for Asset Sales" is available on the Asset Sales website.

    (go to http://www.sba.gov/assets/hilites.html).

12. **Has the SBA considered (similar to the HUD deals) to ask bidders in the bid package whether they would be willing to finance winning bidders, so that the SBA can facilitate the participation of smaller players, by suggesting financing sources?**

    SBA has a history of creating a venue for parties to get together. The PRO-NET database showcases small contractors' services and the ANGEL-NET database provides venture capital sources to the small business community. SBA is considering providing a process whereby financing

sources could identify themselves to the bidders, but it may not be possible to provide such a forum for the first sale.

ABOUT the Assets To Be Sold

13. What kind of assets does the SBA have for sale?

The assets that will be included in the Asset Sales Program include:

- **small business loans on which the SBA has paid its guarantee to the lender or investor (these may be Section 7(a) or Development Company loans, primarily Section 504's),**
- **small business loans that SBA made directly to the borrower, and**
- **home and business disaster assistance loans that SBA originated and serviced.**

14. Have all these loans defaulted and the guaranty been paid?

No. Some of the loans in the first sale are direct loans, which means they were made and serviced by SBA. The majority of the loans, however, were originally guaranteed; the loans defaulted and SBA paid the guaranty.

15. The asset sales may include loans that were originated under which of the SBA programs?

- **SBA's 7(a) Loan Guaranty Program:**

  Section 7(a) of the Small Business Act authorizes the SBA to guarantee loans to small businesses that cannot obtain financing on reasonable terms through normal lending channels. The SBA basic guaranty program generally is used to fund the varied long-term needs of small businesses. The program is designed to promote

small business formation and growth by guaranteeing long term loans to qualified firms. Loans are available for many business purposes, such as real estate, expansion, equipment, working capital or inventory. The SBA can guarantee 75 percent of the loan amount up to $750,000. For loans of $100,000 or less, the guaranty rate is 80 percent. The interest rate is not to exceed 2.75 percent over the prime lending rate. Maturities are up to 7 years for working capital loans, 10 years for machinery and equipment and up to 25 year for loans for real estate assets.

- **SBA's Certified Development Company (504 Loan) Program:**

  Certified development companies (CDCs) are non-profit corporations that are established to contribute to the economic development of their community or region. Under the 504 CDC loan program long-term fixed rate financing is provided to small businesses, who use the funds to acquire real estate, machinery and equipment for expansion of business or modernization of facilities. Typically, 504 projects are financed as follows: 50 percent by an un-guaranteed bank loan in a first lien position, 40 percent by an SBA-guaranteed debenture in a second lien position and 10 percent by the small business customer. The maximum SBA debenture is $1 million.

  > *NOTE: The SBA has three inactive Development Company loan programs that have loans outstanding – the 501, 502, and 503 Programs. These loans were offered to achieve the same objective as the 504 Program. More information will be provided in the Bidders Information Package.*

  (See more on these two programs.)

- **Home Disaster Assistance loans:**

  Loans are available to qualified homeowners for uninsured losses up to $200,000 to repair or restore a primary residence to pre-disaster condition. Homeowners may apply for an additional 20 percent of the loan amount for disaster mitigation. This is the major long-term recovery program for individual disaster losses. In addition, loans are available to qualified homeowners and renters for uninsured losses up to $40,000 to repair or replace personal property such as clothing, furniture, cars, etc.

- **Physical Disaster Assistance Business Loans:**

  Loans for uninsured losses to qualified businesses (large and small businesses and non-profit organizations) to repair or replace business property to pre-disaster conditions. Loans may be used to replace or repair equipment, fixtures and inventory, and to make leasehold improvements.

- **Economic Injury Disaster Assistance Loans (EIDL):**

  Loans to small businesses that sustain economic injury as a direct result of a disaster and can not obtain credit elsewhere. These working capital loans are made to help businesses pay ordinary and necessary operating expenses which would have been payable barring disaster.

  (See more on disaster assistance loans.)

16. Can you provide an overview of the disaster assistance loan portfolio?

As of 04/30/99, the disaster assistance loan portfolio has more than 281,000 loans with an aggregate UPB exceeding $6.9 billion –

Loan Type	Count	Percent of Total	UPB (in millions)	Percent of Total
Home	208,494	74%	$ 3,308	48%
Business	71,544	26%	3,593	52%
Total	280,038	100%	$ 6,900	100%

The disaster assistance loans are made to individuals and businesses to help them recover from natural disasters. Loans are made at a preferential low interest rate for borrowers who cannot obtain credit elsewhere, and at a higher market rate for others.

These are SBA-direct loans that are originated from four disaster area offices (Atlanta, Fort Worth, Niagara Falls, and Sacramento). The loans are SBA-serviced at servicing centers, district offices, and branch offices throughout the country, with the exception of one private sector servicer who manages 30% of the home assistance loan portfolio.

Programmatic information can be obtained on the SBA's website at http://www.sba.gov/gopher/Disaster/Disaster-Home-Loans/homeall.txt (for home loans);

http://www.sba.gov/gopher/Disaster/Economic-Injury-Disaster-Loans/eidlall.txt (for economic injury loans); and

http://www.sba.gov/gopher/Disaster/Disaster-Business-Loans/pdball.txt (for physical loss loans).

Additional information about loan performance and geographic concentration will be provided in the coming weeks.

17. Will the original lender be disclosed through due diligence, since this is often an indication of loan quality in some bidders' estimation?

Yes.

18. Who is the current servicer (i.e., type of entity)?

SBA currently services the vast majority of loans in the first sale. There may be some loans that are serviced by the originating lender or development company. The servicer will be clearly identified in the due diligence materials.

19. What is the collateral for the different types of loans that will be for sale? All collateralized by real estate?

The Bidder Information Package will provide the specific descriptions of all collateral securing each of the loans offered for sale. In general, the

collateral is as diverse as the businesses that SBA supports. SBA is typically a cash flow lender with security interests in machinery and equipment, furniture & fixtures, leasehold improvements, as well as commercial real estate, residential real estate, and vacant land parcels. There are also unsecured loans in the portfolio.

20. Do the properties have new or old BPOs/appraisals?

The files may contain appraisals or indications of value that were obtained during loan servicing. SBA is also obtaining current BPOs or appraisals on certain loans containing commercial real estate collateral. All of this information will be available in the due diligence materials.

21. Can we get an inventory of all the loan assets that may be available for purchase in a loan sale?

An inventory of all the loans in each sale will be made available as each sale is marketed. When this information is available, potential investors will have to execute Confidentiality Agreements and Bidder Qualification Statements. SBA will then release the inventory to those bidders as they are qualified.

22. When will individual asset level information on the first portfolio of loans be made available to investors?

As soon as possible. SBA and its sales contractors are now selecting the portfolio of loans for the first sale, and due diligence has begun. When the entire portfolio is selected, bidders will execute Confidentiality Agreements and Qualification Statements. Those bidders whose documents were accepted by SBA will then get the loan level information.

23. **Any foreclosure issues on these types of properties?**

Loans in litigation, including foreclosures, will be identifiable in the due diligence materials.

24. **Will any of the assets that are presented to the marketplace for sale be involved in litigation?**

Yes. The SBA's collection of delinquent loans may include either the SBA's Office of General Counsel or the Department of Justice when litigation is commenced. Loans with litigation matters will be included.

25. **Would the SBA consider not including loans-in-litigation in this sale, since it will slow down the process and such loans may only be appealing to a select audience – i.e. special servicers?**

The Asset Sales Program includes loans in litigation and such loans are likely to be included in most sales, including this first sale. The litigation status will be readily identifiable.

ABOUT the Participating Lenders' Interests

26. **Are there outstanding lender participations in the assets being sold?**

Potentially, yes. At the origination of the non-direct SBA loan, SBA guaranteed up to 90% of the loan. Upon default and claim by the lender, SBA honored the guarantee, leaving some percentage retained by the lender. SBA expects that lenders will want to contribute their minority interests in the sale, so that investors are buying whole loans. For those lenders who don't however, a package of SBA-only participations would likely be offered to the investors.

27. What type of ownership will be available to the successful purchaser?

The purchaser effectively "steps into SBA's shoes" with regard to the purchased assets. This would take the form of ownership of notes and assignments of security interests in collateral, if any. If participations are offered, then the purchaser will have SBA's interest, which is likely to be 80-90%, in a participation with the originating lender.

ABOUT Staying Current on Asset Sales Program Developments

28. As an investor, how can I stay abreast of developments?

Three ways: (1) Visit the SBA Asset Sales Program website (go to http://www.sba.gov/assets) and watch for announcements online, (2) Watch the national financial publications, such as The Wall Street Journal, for advertisements, and (3) Send a letter, fax, or email to the SBA Program Financial Advisor, providing your name and address, contact person, phone, fax, and email address. All of SBA's financial advisors will use these records for direct mailings.

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29. Will SBA have an internal sales team? Should the interested investor contact the sales team and schedule a meeting to discuss their interests?

SBA does has staff assigned to the Asset Sales Program, but investors should contact the Program Financial Advisor (see above) to discuss the program and the investor's interests.

ABOUT the Structure of the Planned Asset Sales

30. Does SBA expect to use the optimization methodology that was used at the Department of Housing and Urban Development (HUD)?

SBA is familiar with the optimization methodology and has met with HUD officials to discuss application to the SBA asset portfolios. A decision has not been made on the appropriate "bid model." SBA's sales contractors will be making their recommendations as the bid structure and procedures are developed.

31. Has the SBA considered not doing BPO's since most large bidders will do them themselves anyway?

SBA is committed to establishing a level playing field for all investors. It may be true that large bidders will obtain their own BPOs. However, the SBA believes that providing some common due diligence materials to all investors serves to keep the "price of entry" down and encourage more bidders, large and small alike.

32. Does SBA expect to use imaging technology or paper copies for presentation of the due diligence materials to the investor marketplace?

SBA plans to use imaging. Imaging is cost-effective for SBA and it significantly reduces the investor's due diligence costs for sales that include thousands of loans. Investor direct mailings will contain updates on the investor due diligence plans.

33. What's the status of taxes and insurance on the properties that collateralize the loans for sale?

SBA does not escrow for taxes and insurance as a standard practice. The due diligence information will reveal what SBA knows of the current status of taxes and insurance from existing file information.

34. Will SBA be using whole loan sales entirely or will other structures be a part of the Asset Sales Program?

SBA is committed to using sales structures that will return the best value for the government over the life of the program. The considerations are not purely monetary, as the public policy objectives play heavily in the equation. Additionally, as SBA is launching a program, not just a sale, there is a strong mandate to institutionalize the sales process within the career staff. SBA and its sales contractors are currently making the determination as to the structure for the first sale. The Program Financial Advisor will be analyzing the entire portfolio and discussing alternate structures with the SBA in the coming weeks and months.

35. Has the SBA considered using the RTC "N Series" structure where the SBA retains an interest and is able to benefit from upside potential on collections?

The first sale will be a sealed bid auction. The SBA is familiar with the RTC "N series" and other retained interest structures. As noted in the Draft Asset Sales Program Strategic Plan, SBA believes the retained interest structure is a viable tool and it may be used for sales in the future.

36. Will the loans for sale be aggregated geographically or by other criteria?

For each individual sale, the SBA and its sales contractors will review the portfolio to determine the asset mix and structure which will achieve public policy objectives, maximize return and minimize costs. The most effective stratification of loans cannot be determined until the pool of assets to be sold has been identified and the loan attributes are gathered and evaluated.

However, the loans will be stratified into different pools according to certain characteristics. Within those pools, there will be groups of loans by geography, cash flow, etc. The portfolio will also be stratified by Standard Industrial Code (SIC).

37. Will the loans be bundled by collateral type in order to create an easier environment for an exit strategy for the bidders?

SBA is evaluating the loan characteristics to develop an appropriate stratification for sale. In addition to collateral, other attributes such as loan performance and geography are under review.

38. Will borrowers be allowed to participate in the sales process and potentially, purchase their own loan?

Yes. Borrowers who are otherwise qualified to bid, will be allowed to bid on one or more pools of loans, including those pools that have the borrower's loan(s).

39. Will lenders who own a percentage of the loans be allowed to participate in the sales program?

Yes. SBA has more than 6,000 lending "partners" and they are an interested pool of investors for these loans. Lenders who are otherwise qualified to bid will be allowed to bid on one or more pools of loans, including those pools that have loans that were originated and serviced by that lender.

40. Has the SBA considered not requiring a bid deposit or requiring a bid deposit less than 10% - for example, 5% or 1%?

SBA is carefully considering the bid deposit requirements. It is likely that a bid deposit will be required in the amount of 10 percent. SBA is concerned about attracting only serious bidders who have some deposit at risk as an indication of their ability to stand behind accepted bids.

41. Has the SBA considered not requiring a wire transfer, but requiring a cashier's check that can be held in safekeeping and returned if the bidder is unsuccessful?

SBA plans to use wire transfers to receive bidders deposits and to return deposits to those unsuccessful bidders. Wires create less administrative work and get collected funds to the parties in the quickest manner.

42. What about representations and warranties from the SBA, such as right to sell, ownership by SBA, enforceability, accurate items on the Mortgage Schedule (which sets forth the loan number, UPB, and accrued interest among other things)?

SBA is currently evaluating the pros and cons of different representations and warranties. These FAQs will be updated with a decision when it is available.

43. Does the successful bidder have the right to put back loans to the SBA for breaches of any representations provided?

SBA will determine remedies for breaches along with determining the representations and warranties that will be offered. It is common for the seller to have some flexibility in choosing the remedy, whether it be loan repurchase, cash payment for a difference, or loan substitution. SBA is considering at this time.

44. Do I need a special lender to hold or service the loans?

SBA is currently considering servicer qualifications and post-sale servicing requirements. These will be posted on the website as soon as they are available.

45. How do we re-underwrite these loans?

The due diligence materials will contain SBA's file information on each of the loans. If there are any requirements or restrictions on restructuring the loans, they will be contained in the post-sale servicing requirements. When SBA has determined those requirements, the information will be made available on the website.

46. Is there any interim servicing period?

The SBA is interested in closing the sale with the successful purchasers as quickly as possible after the bid date. The mechanics of closing are being developed and the number of successful purchasers may also affect the timing. More information will be provided when it is available.

47. Must we service the loans according to SBA standards?

The servicer qualifications and post-sale servicing requirements are currently being developed.

48. Are there any restrictions on modifying or restructuring these loans?

The servicer qualifications and post-sale servicing requirements are currently being developed.

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Last Modified: 05-27-99